

Report of the Auditor

To the Governor and Company of the Bank of England

We have audited the accounts of the Banking Department on pages 21 to 34, and the statements of account of the Issue Department on page 35, in accordance with Auditing Standards.

2 The statements of account on page 35 present fairly the outcome of the transactions of the Issue Department for the year ended 29 February 1992 and its balances at that date.

COOPERS & LYBRAND DELOITTE

In our opinion

*Chartered Accountants
and Registered Auditor*

1 The accounts on pages 21 to 34 give a true and fair view of the state of affairs of the Banking Department at 29 February 1992 and of the profit and cash flow for the year then ended.

London
14 May 1992

Banking Department

Profit and loss account for the year ended 29 February 1992

1991 £000		1992 £000
161,798	Operating profit	166,162
<u>81,535</u>	Payment to the Treasury under Section 1 (4) of the Bank of England Act 1946	<u>67,648</u>
80,263	Profit before taxation	98,514
<u>18,082</u>	Taxation	<u>30,866</u>
<u>62,181</u>	Profit transferred to reserves	<u>67,648</u>
<u>4,288,250</u>		<u>4,411,522</u>
<u>2,482,210</u>		<u>2,348,230</u>

Banking Department

Balance sheet: 29 February 1992

1991 £000			1992 £000	1992 £000
14,553	Capital	(Note 6)	14,553	
832,135	Reserves	(Note 7)	891,522	
<u>846,688</u>				906,075
	Current liabilities			
367,372	Public deposits	(Note 8)	373,453	
1,796,586	Bankers' deposits	(Note 9)	1,517,918	
2,082,839	Other deposits	(Note 10)	2,485,748	
113,230	Taxation and other creditors		141,528	
81,535	Payable to the Treasury	(Note 4)	67,648	
<u>4,441,562</u>				4,586,295
<u>5,288,250</u>				<u>5,492,370</u>

Banking Department

1991 £000		1992 £000
5,665	Notes and coin	9,228
352,999	Cheques in course of collection	311,392
621,405	Treasury and other bills <i>(Note 11)</i>	1,116,911
1,841,463	Advances to customers <i>(Note 12)</i>	663,255
1,021,482	Other accounts receivable <i>(Note 13)</i>	1,927,943
980,507	Investments <i>(Note 14)</i>	1,011,041
79,864	Subsidiary companies <i>(Note 15)</i>	79,321
384,865	Premises and equipment <i>(Note 16)</i>	373,279
<u>5,288,250</u>		<u>5,492,370</u>

R LEIGH-PEMBERTON *Governor*
E A J GEORGE *Deputy Governor*
ADRIAN CADBURY *Director*
H C E HARRIS *Associate Director*

Banking Department

Cash flow statement for the year ended 29 February 1992

1991		1992
£000		£000
381,133	Net cash (outflow)/inflow from operating activities	(567,225)
(72,800)	Payments to the Treasury	(81,535)
(16,972)	Corporation tax paid	(23,159)
	Investing activities:	
—	Increase in other investments	(2)
(10,014)	Investment in subsidiary companies	(957)
(22,658)	Purchase of premises and equipment	(16,042)
198	Sales of premises and equipment	79
(32,474)		(16,922)
258,887	(Decrease)/increase in cash and cash equivalents	(688,841)

Notes to the cash flow statement

(a) Analysis of changes in cash and cash equivalents during the year

1991		1992
£000		£000
2,108,923	Balance at 1 March	2,367,810
258,887	Net cash (outflow)/inflow	(688,841)
2,367,810	Balance at 29 February	1,678,969

(b) Analysis of the balances of cash and cash equivalents

1991		Change in year	1992
£000		£000	£000
5,665	Notes and coin	3,563	9,228
1,740,740	Advances to discount market	(1,187,910)	552,830
621,405	Treasury and other bills	495,506	1,116,911
2,367,810		(688,841)	1,678,969

Advances to the discount market and Treasury and other bills are treated as cash equivalents as they represent the Bank's principal liquidity. The allocation of this liquidity between advances and bills depends on prevailing market conditions.

(c) Reconciliation of operating profit to net cash outflow from operating activities

1991 £000		1992 £000
161,798	Operating profit	166,162
(29,148)	Increase in interest receivable and prepaid expenses	(8,488)
(2,585)	Decrease in interest payable and accrued expenses	(4,826)
16,461	Depreciation	17,439
128	(Profit)/loss on sale of tangible fixed assets	(1,681)
6,349	Effect of other deferrals and accruals on operating activity cash flow	13,478
613,152	Net increase in foreign currency deposits	892,558
225,855	Net (decrease)/increase in other deposits	(760,892)
(9,530)	Net increase in advances to customers	(9,702)
(604,908)	Net increase in accounts receivable	(895,178)
(73,130)	Increase in securities held	(17,702)
76,691	Decrease in collections on other banks	41,607
<u>381,133</u>	Net cash (outflow)/inflow from operating activities	<u>(567,225)</u>

Notes to the Banking Department accounts

1 Accounting policies

a Form of presentation of accounts

Although the Bank's constitution is not governed by the Companies Acts, the accounts of the Banking Department have been prepared so as to comply with the requirements of the Companies Act 1985 and applicable Accounting Standards in the United Kingdom in so far as they are appropriate to a central bank.

The accounts have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain fixed assets and in accordance with the special provisions of part VII of the Companies Act 1985 relating to banks.

The Bank has adopted the provisions of Financial Reporting Standard Number 1 in these accounts. Accordingly, a cash flow statement has replaced the statement of source and application of funds presented last year.

The Directors consider that the Banking Department constitutes a single business all conducted in the United Kingdom. Accordingly no further analysis into business or geographic segments is appropriate.

b Treasury and other bills

Treasury and other bills are stated at cost plus accrued interest.

c Investments

British government securities are stated at cost adjusted for the amortisation of premiums or discounts on a straight line basis over the period to maturity; income includes the amortisation of premiums or discounts.

Other securities are stated in the balance sheet at cost less provisions.

Profits and losses on realisation are taken to the profit and loss account in the year in which they arise.

d Premises and equipment

Freehold and leasehold premises are stated at a professional valuation on an open-market value for existing use basis as at 29 February 1992. No account is taken of any liability to taxation which could arise if the premises were disposed of at their revalued amounts.

Equipment is stated at cost less accumulated depreciation. Depreciation, on a straight line basis, is charged as follows:

Freehold buildings	over the estimated future life
Leasehold premises	over the period of lease or estimated future life
Computers	over periods ranging from three to five years
Other equipment	over periods ranging from three to twenty years

e Bad and doubtful debts

Appropriate provision is made for bad and doubtful debts.

f Foreign currency translation

Assets and liabilities in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Income and expenditure are translated into sterling at the exchange rates ruling at the time of the transaction.

g Commitments on behalf of the Treasury

Commitments in foreign currencies and gold, or on a gold basis, undertaken in the name of the Bank for account of the Treasury, principally in the course of operating the Exchange Equalisation Account, are not included in these accounts as the Bank is concerned in such transactions only as agent.

h Deferred tax

Deferred tax is provided, at the estimated rates at which future taxation will become payable, on all material timing differences where it is probable that a liability to taxation will crystallise in the foreseeable future.

j Dividends from subsidiaries

Dividends from subsidiaries are included as income when declared.

k Leasing

Operating lease rentals are charged to the profit and loss account as incurred.

l Retirement benefits

The cost of pensions is assessed in accordance with the advice of an independent actuary and accounted for on the basis of charging the cost to the profit and loss account over the employees' service lives using the projected unit method. Variations from the regular cost are spread over the average remaining service lives of the members of the scheme.

2 Operating profit

The operating profit is arrived at after taking account of the following:

1991		1992
£ thousands		£ thousands
	Income	
	Interest:	
246,243	Treasury and other bills	155,783
	British government securities including amortisation of premiums and discounts on acquisition	119,395
114,895	Advances and other accounts	164,462
97,337	Interest and dividends:	
7,886	Unlisted securities	8,848
12,000	Subsidiary companies	7,500
54,606	Charges for services to the government	51,947
4,226	Rents	4,789
(128)	Profit/(loss) on disposal of fixed assets	1,681
	Charges	
154,534	Interest paid to depositors	169,666
44,024	Loss on sale of British government securities	—
17,633	Cost of severance schemes	12,289
1,024	Directors' emoluments (Note 3)	929
112	Auditor's remuneration	121
1,025	Hire of computers and other equipment	1,008
1,247	Other operating lease rentals	2,052
16,461	Depreciation of premises and equipment	17,439

3 Directors' emoluments

The aggregate emoluments of the Governors and Directors for the year ended 29 February were:

1991		1992
£11,500	Fees	£11,500
	Other emoluments, including remuneration of Governors and Executive Directors and contributions to Court Pension Scheme	£845,313
£950,855	Pensions to former Directors and widows of former Directors	£71,746
£61,267		

The Governor's emoluments, excluding pension contributions, totalled £164,311 (1991 £155,019). Remuneration of £34,135 (1991 Nil) was waived by the Governor.

The emoluments of the highest paid Director totalled £164,910. In the year ended 28 February 1991 no Director's emoluments exceeded those of the Governor.

The following table shows for the year ended 29 February the number of Governors and Directors receiving remuneration within the bands stated.

1991		1992
12	£0—£5,000	12
1	£100,001—£105,000	—
1	£105,001—£110,000	—
2	£110,001—£115,000	1
—	£120,001—£125,000	1
—	£125,001—£130,000	2
1	£140,001—£145,000	—
1	£155,001—£160,000	—
—	£160,001—£165,000	2

The Bank made no pension contribution in respect of non-executive Directors.

4 Payment to the Treasury

1991		1992
£ thousands		£ thousands
40,150	Payable 5 April	34,000
41,385	Payable 5 October	33,648
81,535		67,648

5 Taxation

The charge for taxation comprises:

1991		1992
£ thousands		£ thousands
15,194	UK corporation tax at an average rate of 33% (1991 34%) based on the profits for the year	27,693
159	Tax on franked investment income	1,267
(1,182)	Prior year corporation tax	570
469	Prior year deferred tax	(368)
3,442	Deferred tax	1,704
18,082		30,866

The deferred tax liability of £23,707,000 is comprised as follows:

1991		1992
£ thousands		£ thousands
9,131	Short-term timing differences	7,468
2,247	Accelerated capital allowances	3,342
10,993	Other timing differences	12,897
<u>22,371</u>		<u>23,707</u>

Tax of £9,000,000 (1991 £8,000,000) has not been provided in respect of further accelerated capital allowances as the provision at 29 February 1992 is considered adequate.

6 Capital

The entire capital comprising £14,553,000 of Bank Stock is held by the Treasury Solicitor on behalf of Her Majesty's Treasury.

7 Reserves

	General reserve	Revaluation surplus	Total
	£ thousands		
Balance at 1 March 1991	570,698	261,437	832,135
Retained profit for the year	67,648	—	67,648
Deficit on revaluation of properties	—	(8,261)	(8,261)
Balance at 29 February 1992	<u>638,346</u>	<u>253,176</u>	<u>891,522</u>

8 Public deposits

Public deposits are the balances on government accounts, including Exchequer, National Loans Fund, National Debt Commissioners and dividend accounts.

9 Bankers' deposits

1991		1992
£ thousands		£ thousands
1,516,563	Cash ratio deposits	1,387,108
280,023	Other deposits	130,810
<u>1,796,586</u>		<u>1,517,918</u>

10 Other deposits

1991		1992
£ thousands		£ thousands
1,366,304	Central banks	2,046,649
716,535	Other deposits	439,099
<u>2,082,839</u>		<u>2,485,748</u>
944,908	Balances denominated in foreign currencies included in the above	1,808,885

11 Treasury and other bills

1991		1992
£ thousands		£ thousands
621,405	British government Treasury bills	462,482
—	Other bills	654,429
<u>621,405</u>		<u>1,116,911</u>

12 Advances to customers

1991		1992	
£ thousands		£ thousands	
1,740,740	Advances to discount market	552,830	
100,723	Other advances	110,425	
<u>1,841,463</u>		<u>663,255</u>	

13 Other accounts receivable

1991		1992	
£ thousands		£ thousands	
954,572	Foreign currency accounts at banks	1,847,132	
66,910	Other accounts	80,811	
<u>1,021,482</u>		<u>1,927,943</u>	

14 Investments

1991		1992	
£ thousands		£ thousands	
Book value	Valuation	Book value	Valuation
947,079	1,044,040		British government securities
33,428	97,069	977,611	1,119,306
980,507	1,141,109	33,430	107,171
		<u>1,011,041</u>	<u>1,226,477</u>

Valuation represents middle-market values for British government securities and Directors' valuation for unlisted securities.

The principal holdings of equity share capital included in unlisted securities are as follows:

1991		1992
Percentage held		Percentage held
	<i>Over 20%</i>	
	The Agricultural Mortgage Corporation PLC	
27	shares of £1	27
	Share capital and reserves of the company	
	as at 31 March 1991 £47,239,000	
	Loss of the company for the year ended	
	31 March 1991 £2,837,000	

As a matter of policy, the Bank does not seek to influence the commercial or financial decisions of the above company, which is registered in England, and accordingly it is not treated as an associated company.

	<i>Under 20%</i>	
	3i Group plc shares of £1	
15	(Registered in England)	15
	Bank for International Settlements	
	shares of 2,500 Swiss gold francs (25% paid)	
10	(Incorporated in Switzerland)	10

15 Subsidiary companies

This comprises:

1991		1992	
£ thousands		£ thousands	
59,592	Investments in subsidiary companies (at cost)	59,592	
20,272	Amounts owing by subsidiary companies	19,729	
<u>79,864</u>		<u>79,321</u>	

Included within Current liabilities is a total of £23,524,000 (1991 £22,602,000) due, in the normal course of business, to subsidiary companies.

(a) Minorities Finance Ltd

Throughout the year ended 29 February 1992, the Bank held the entire issued share capital of 37.5 million £1 ordinary shares of Minorities Finance Ltd (MFL), which is registered in England. As a condition of a capital reduction which took place in June 1987 the Bank gave an indemnity whereby any future deficit in MFL's shareholders' funds would be made good by the Bank up to a maximum of £37.5 million.

MFL's accounts as at 31 December 1991 bear an unqualified audit report. The company has continued its principal activity of realisation of loans and other non-liquid assets which, with income generating monetary assets, comprise its remaining assets. MFL will continue to pursue repayment of its remaining outstanding loans and advances.

The continuing recoveries of outstanding loans and advances produced a surplus for the year of £7.1 million, bringing MFL's distributable reserves to £15.5 million. MFL has declared dividends from these reserves of £7.5 million of which £3 million was paid to the Bank on 27 September 1991 and £4.5 million on 30 April 1992.

The accounts of MFL have not been consolidated with those of the Banking Department because, in the opinion of the Directors, the effect of including its assets, liabilities and profit, together with those of the Bank's other subsidiaries, with those of the Banking Department would not be material.

The accounts of MFL show:

Profit for the year to 31 December 1991	£7,114,000
Accumulated reserves as at 31 December 1991	
after provision for dividends	£7,970,000
Net assets at 31 December 1991	
after provision for dividends	£45,470,000

(b) Subsidiaries in liquidation

Two wholly-owned subsidiaries, Slater, Walker Ltd and EBS Investments Ltd, which the Bank acquired through support operations, have been in members voluntary liquidation throughout the year to 29 February 1992. Both companies are registered in England.

The investments in these companies are included in the Bank's balance sheet at £17 million.

(c) Other subsidiaries

Investments in other subsidiary companies, all of which are wholly owned and registered in England, are stated in the Bank's balance sheet at cost and include:

B.E. Property Holdings Ltd	5,000,000 shares of £1
BE Services Ltd	5,000 shares of £1
B.E. Museum Ltd	10,000 shares of £1
The Securities Management Trust Ltd	1,000 shares of £1
Debden Security Printing Ltd	100,000 shares of £1

The accounts of these companies have not been consolidated with those of the Bank because, in the opinion of the Directors, the amounts are not material. The aggregate amount of the Bank's investment in the shares of the above subsidiaries is £5.1 million

The net aggregate profits of these subsidiary companies attributable to the Bank, which have not been dealt with in the accounts of the Banking Department, and which are stated by reference to audited accounts are as follows:

	£ thousands
For the year ended 29 February 1992	56
Since acquisition	<u>358</u>

16 Premises and equipment

	£ thousands				
		Leasehold premises			
	Freehold premises	(50 years and over unexpired)	(under 50 years unexpired)	Equipment	Total
Cost or valuation					
At 1 March 1991	206,405	164,900	55	85,268	456,628
Additions	1,504	1,850	113	12,205	15,672
Disposals	—	(1,741)	—	(2,518)	(4,259)
Transfers	22	(3,081)	2,501	558	—
Deficit on revaluation	(19,210)	(13,563)	(348)	—	(33,121)
At 29 February 1992	<u>188,721</u>	<u>148,365</u>	<u>2,321</u>	<u>95,513</u>	<u>434,920</u>
Accumulated depreciation					
At 1 March 1991	9,818	13,440	55	48,450	71,763
Charge for the year	3,047	4,803	86	9,503	17,439
On disposals	—	(360)	—	(2,341)	(2,701)
On transfers	—	(468)	338	130	—
Written back on revaluation	(7,527)	(16,875)	(458)	—	(24,860)
At 29 February 1992	<u>5,338</u>	<u>540</u>	<u>21</u>	<u>55,742</u>	<u>61,641</u>
Net book value at 29 February 1992	<u>183,383</u>	<u>147,825</u>	<u>2,300</u>	<u>39,771</u>	<u>373,279</u>
Net book value at 28 February 1991	<u>196,587</u>	<u>151,460</u>	<u>—</u>	<u>36,818</u>	<u>384,865</u>
Cost or valuation at 29 February 1992 comprised:					
At 1992 valuation	182,759	148,365	2,321	—	333,445
At cost	5,962	—	—	95,513	101,475
	<u>188,721</u>	<u>148,365</u>	<u>2,321</u>	<u>95,513</u>	<u>434,920</u>

The figures relating to property interests reflect a professional valuation of Bank freehold and leasehold premises by St Quintin, Chartered Surveyors, as at 29 February 1992, on an open-market value for existing use basis.

Contracts for capital expenditure authorised by the Directors and outstanding at 29 February 1992 totalled £8.4 million (1991 £8.1 million). Further capital expenditure authorised at that date, but not contracted for, is estimated at £6.5 million (1991 £7 million).

17 Transactions with Directors and Officers

The following particulars are given relating to loans by the Bank of England to Directors and Officers of the Bank and persons connected with them:

	Number	Total amount £ thousands
Directors	4	129
Officers	18	844

There were no other transactions that would be required to be shown under the provisions of the Companies Act 1985. None of the Directors or Officers had a material interest, directly or indirectly, at any time during the year in any other significant transaction or arrangement with the Bank or any of its subsidiaries.

The above information concerning Officers is presented only in respect of those employees of the Bank who would be considered as managers within the meaning of the Banking Act 1987.

18 Retirement benefits

The Bank operates defined benefit pension schemes providing benefits based on final pensionable pay for employees of the Bank and its subsidiary BE Services Ltd. The assets of the schemes are held separately by the Bank in independent trustee-administered funds.

The main scheme, the Bank of England Pension Fund, is valued every three years by an independent qualified actuary. The latest actuarial valuation was as at 28 February 1990, used the projected unit method and showed that the actuarial value of the Fund's assets represented 127% of the benefits that had accrued to members at that date, after allowing for future increases in earnings and pensions in payment. The market value of the Fund's assets at that time was £896 million and the required contribution rate was 22.4%. The surplus continues to be used to reduce the Bank's contribution rate.

The principal assumptions were that, over the long term, the return on new investments would exceed the rate of increase in salaries by 2% and the rate of increase in pensions by 4%. It was also assumed that the equity dividend growth would be lower by 0.5% than the rate of future pension increases.

The pension cost for the year was £1.9 million (1991 £3.0 million). £24.2 million (1991 £17.3 million), representing the excess of the amounts funded over the cost, is included in other accounts receivable.

19 Leasing commitments

At the year end, annual commitments under operating leases were:

1991 £ thousands		1992 £ thousands
	Land and Buildings on leases expiring:	
122	Within one year	—
177	Between two and five years	—
686	Beyond five years	1,909
	Equipment on leases expiring:	
363	Within one year	5
332	Between two and five years	755

20 Contingent liabilities

Contingent liabilities, offset by corresponding obligations of third parties, arise in the normal course of business. In addition there are forward contracts for the purchase and sale of foreign currencies. It is not envisaged that any irrecoverable liability will arise from these transactions.

Since 1930 there has also been a contingent liability, denominated in Swiss gold francs, in respect of uncalled capital on the Bank's investment in the Bank for International Settlements. The sterling equivalent of this liability based on the gold market price at the balance sheet date was £168 million (1991 £159 million).

21 Date of approval

The Court of Directors approved the accounts on pages 21 to 34 on 14 May 1992.

Issue Department

Account for the year ended 29 February 1992

1991 £000		£000	1992 £000
	Income and profits:		
2,022,556	Securities of, or guaranteed by, the British government	1,349,944	
580,250	Other securities	586,459	
110	Other receipts	<u>217</u>	
<u>2,602,916</u>			1,936,620
	Expenses:		
37,960	Cost of production of Bank notes	41,605	
16,135	Cost of issue, custody and payment of Bank notes	17,343	
3,049	Other expenses	<u>2,971</u>	
<u>57,144</u>			61,919
<u>2,545,772</u>	Payable to the Treasury		<u>1,874,701</u>

Statement of balances: 29 February 1992

1991 £000		1992 £000	1991 £000		1992 £000
	Notes issued:				
15,374,578	In circulation	16,121,022	11,015	Government debt	11,015
5,422	In Banking Department	8,978	8,443,617	Other securities of, or guaranteed by, the British government	8,262,008
			6,925,368	Other securities	7,856,977
<u>15,380,000</u>		<u>16,130,000</u>	<u>15,380,000</u>		<u>16,130,000</u>

Notes:

- In accordance with the requirements of the Currency and Bank Notes Act 1928 and the National Loans Act 1968, income and profits include interest received and realised gains and losses on securities, discount received on short-dated bills and the effects of the quarterly revaluation of securities to market prices. The value of securities includes the effects of the quarterly revaluation. The last such valuation was made at 27 February 1992.
- The Court of Directors approved the above statements of account on 14 May 1992.

R LEIGH-PEMBERTON
E A J GEORGE
ADRIAN CADBURY
H C E HARRIS

Governor
Deputy Governor
Director
Associate Director

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(1) Enquiries relating to this Report or to the Quarterly Bulletin may be made on 071-601 4030.